



## M E M O R A N D U M

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**Date:** May 20, 2010

**To:** California State Lottery Commission

**From:** Joan M. Borucki  
Director

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Sales & Marketing Division

**Subject:** Item 8(a) – Amendment to Extend the Term of United Parcel Service  
(UPS) Contract for Scratchers® Delivery Services to Retailers

### **ISSUE**

Should the California State Lottery Commission (Commission) approve an amendment to the UPS Scratchers Ticket Delivery contract to extend the contract term for one year with an additional expenditure authority of \$3.6 million for a total contract expenditure authority of \$17.7 million for Contract #11710?

### **RECOMMENDATION**

Staff recommends that the Commission approve an amendment to the UPS Scratchers Ticket Delivery contract to extend this contract for one year. To accommodate this extension, staff recommends that the Commission approve an additional expenditure authority of \$3.6 million for a total contract expenditure authority of \$17.7 million for Contract #11710.

### **BACKGROUND**

A key component of the California State Lottery's (Lottery) product line is its instant games, known as Scratchers. Each year, the Lottery introduces over 40 new Scratchers games and Scratchers account for approximately half of annual Lottery sales. The Lottery has used a contracted Scratchers ticket delivery service to deliver Scratchers tickets to our retailers since sales began in 1985. Over the course of the last 25 years, Scratchers sales have grown to the point where we currently ship around 60,000 orders (or about 585,000 packs of tickets) to our retailers each month.

On August 9, 2006, the Commission approved the award to UPS of a contract for Scratchers delivery services. The contract included a base term of three years and two options to extend the term, each for one additional year, for an approved total potential term of five years. The Commission approved a total expenditure authority of \$10.5 million for the three-year base term only. On June 26, 2009, the Commission approved exercise of the first option to extend the term for one year, and approved expenditure of \$3.6 million for the option year, for a total contract expenditure of \$14.1 million. If no other option is exercised, the contract will expire on August 19, 2010.

The contract with UPS requires that all deliveries must be made within 48 hours of pick-up from the Lottery's two Distribution Centers. The contract also requires UPS to provide two full-time staff for each of the Distribution Centers to assist with shipping Scratchers orders and producing bar-coded shipping labels for each delivery.

### **DISCUSSION**

UPS was awarded the Scratchers Delivery Services contract based in large part on its excellent pricing proposal of \$4.15 per delivery for the first year with relatively modest increases of 15 cents per delivery in each of the two option years of the contract. The contract allows UPS to raise its rates by an additional 16 cents per delivery in each of the two 1-year contract option years to \$4.61 and \$4.77, respectively. Accordingly, the quoted rate of \$4.77 per delivery will apply to services provided during the final option year.

It is also important to note that, because UPS is offering a fixed cost per delivery regardless of the size or weight of the order, as Scratchers sales increase significantly over the course of the next 12 months as a result of higher prize payout legislation, the Lottery will not incur any additional expense associated with the delivery of larger orders of tickets.

The Lottery has also assessed UPS's overall performance during the last four years in making this recommendation to exercise the second option to extend. The Lottery is very pleased with the services that UPS has provided. The Lottery's assessment of UPS's performance revealed that UPS is very well recognized by Lottery retailers, has provided timely and accurate delivery services, and has provided all of the equipment necessary to produce bar-coded shipping labels as well as the required support staff to assist with packaging and shipping thus saving personnel costs that would otherwise be incurred by the Lottery.

Based on UPS's favorable pricing and their satisfactory performance to date, staff recommends that the Lottery exercise the second and last available one-year option. Exercising the option will require an additional expenditure authority of \$3.6 million to cover Scratchers ticket delivery costs. With the exercise of the option, the new contract expiration date will be August 19, 2011 and the total contract expenditure authority will be \$17.7 million.